

COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2015/16

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

1. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. Council approved the Capital Programme for 2015/16 to 2019/20 in February 2016. Planned capital expenditure and financing is summarised below. Further detail is provided in the Capital update which is being submitted to council on 20th July 2016.

Capital Expenditure and Financing	2015/16 Forecast £M	2015/16 Actual £M	2016/17 Estimate £M	2017/18 Estimate M
General Fund	46.8	37.1	111.2	6.3
HRA	65.5	38.8	58.9	35.4
Total Expenditure	112.3	75.9	170.1	41.7
Capital receipts	14.0	5.2	3.4	3.4
Government Grants	28.0	23.7	31.2	5.0
Contributions	4.1	3.6	3.8	1.9
Major Repairs Allowance	19.0	19.8	19.9	20.3
Revenue	12.0	7.9	11.6	9.3
Total Financing	77.1	60.2	69.9	39.9
Temporary Financing	(1.0)	0.0	0.0	0.0
Unsupported borrowing	36.2	15.7	100.2	1.8
Total Funding	35.2	15.7	100.2	1.8
Total Financing & Funding	112.3	75.9	170.1	41.7

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below detail our expected debt position and the year-on-year change to the CFR:

Estimated Debt Position	2015/16 Actual £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
Borrowing	99.8	197.7	198.4	199.0
Finance leases and Private Finance Initiatives	64.8	61.7	60.4	58.3
Transferred Debt	15.3	14.9	14.6	14.2
Total General Fund Debt	179.9	274.3	273.4	271.5
HRA	149.0	168.3	164.6	165.0
Total Debt	328.9	442.6	438.0	436.5

Capital Financing Requirement (CFR)	2015/16 Actual £M	2016/17 Estimate £M	2017/18 Estimate £M	2018/19 Estimate £M
General Fund	274.1	280.7	348.7	341.9
HRA	153.5	155.0	174.3	170.6
Total CFR	427.6	435.7	523.0	512.5
Capital expenditure financed from borrowing (inc PFI)				
General Fund (GF)	9.7	75.7	0.3	0.1
HRA	6.0	24.5	1.4	5.5
HRA Voluntary Repayment of Debt	(5.2)	(5.2)	(5.2)	(5.2)
GF Revenue provision for debt Redemption.	0.0	(4.9)	(4.8)	(4.8)
Movement in Other Long Term Liabilities	(2.4)	(2.8)	(2.2)	(2.4)
Total CFR	435.7	523.0	512.5	505.7

3. Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that

the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2015/16; borrowing at its peak was £252.7M plus other deferred liabilities of £83M.

4. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate

Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2015/16 (%)	Maximum during 2015/16 (%)
Upper Limit for Fixed Rate Exposure	100	81.8
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	18.2
Compliance with Limits:	Yes	Yes

5. Total Principal Sums Invested for Periods Longer Than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £50M. In 2015/16 the actual principal sum invested for periods longer than 364 days peaked at £27M, (compared to £14M in 2014/15). This reflects the continued investment into the longer term secured bond market.

6. Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period.

Fixed Rate Debt	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/03/2016	Average Fixed Rate as at 31/3/2016	% of Fixed Rate as at 31/3/2016	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	17.40	3.11	8	Yes
12 months and within 24 months	0	45	0.00	0.00	0	Yes
24 months and within 5 years	0	50	27.70	3.14	13	Yes
5 years and within 10 years	0	75	30.30	3.48	14	Yes
20 years and within 30 years	0	75	15.00	4.65	7	Yes
30 years and within 40 years	0	75	66.70	3.82	31	Yes
40 years and within 50 years	0	75	57.10	3.60	27	Yes
			214.2	3.58	100	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require

payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decisions in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the approved capital programme adjusted for actual borrowing made in year.

This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved %	2015/16 Actual %	2016/17 Forecast %	2017/18 Forecast %	2018/19 Forecast %
General Fund	6.83	5.80	8.47	9.11	9.59
HRA	14.93	14.07	14.12	14.31	14.77
Total	10.17	9.18	11.18	11.57	12.15

*The figure quoted as the actual for 2015/16 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

8. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code* on 19 February 2003 and all its subsequent updates. (latest 2011 edition)

9. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing.

HRA Summary of Borrowing	2015/16 Approved £M	2015/16 Actual £M	2016/17 Approved £M	2017/18 Approved £M	2018/19 Approved £M
Brought Forward	153.5	153.5	174.6	193.9	190.2
Maturing Debt	(5.1)	(5.1)	(5.2)	(5.2)	(5.2)
New borrowing	25.6	0.0	24.5	1.5	5.5
Appropriations	0.6	0.6			
Carried forward	174.6	149.0	193.9	190.2	190.5
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	25.0	50.6	5.7	9.4	9.1

10. Summary

As indicated in this report none of the Prudential Indicators have been breached.